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UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

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MEMORANDUM

TO: Members of the International Energy Security Group

FROM: E - Allen Wallis

SUBJECT: Meeting of the International Energy Security Group, Monday, January 10 at 10:30 a.m.

We will hold a meeting of the International Energy Security Group on Monday, January 10, at 10:30 a.m. in the "D" Conference Room, Room 7224, State Department. The agenda for the meeting will be:

1. Alaskan oil export.

2. Progress Report on Energy Requirements Study.

An updated options paper on the Alaskan oil export issue has been prepared by the NSC staff and it will be distributed to Group members prior to the meeting.

Please confirm attendance plans to Ms. Kaarn Weaver of my staff, 632-7448.

Addressees:
DOE: Mr. Davis
Commerce: Mr. Olmer
Commerce: Mr. Morris
Defense: Mr. Ikle'
NSC: Mr. Bailey
CIA: [redacted] 25X1
OMB: Mr. Khedouri
OPD: Mr. Boggs
Treasury: Mr Leland
Interior: Mr. West
S/SN: Mr. Fairbanks
EB: Mr. McCormack
EUR: Mr. Burt
EA: Mr. Wolfowitz

 [redacted]

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

VIA LDX

(copied to NIO/E, NIO/LA)

~~CONFIDENTIAL ATTACHMENT~~

January 7, 1983

MEMORANDUM FOR: ALLEN WALLIS
KEN DAVIS
LIONEL OLMER
BILL MORRIS
FRED IKLE
[redacted]
FRED KHEDOURI
DANNY BOGGS
MARC LELAND
ROBIN WEST

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FROM: NORMAN A. BAILEY NB

Attached is the updated options paper on the Alaskan oil export issue for the January 10 meeting of the International Energy Security Group.

Attachment

~~CONFIDENTIAL ATTACHMENT~~

Report of the Working Group on Alaskan Oil Export

Summary

The Export Administration Act and the Trans-Alaskan Pipeline Act essentially forbid the export of crude oil from the United States. These laws were generally enacted in response to the belief that in time of oil shortages all available domestic oil should stay in this country.

The Working Group has concluded, however, that the present improved energy situation, coupled with new international political and economic realities, strongly suggests that the Administration should consider partially lifting the export ban.

In return, the Japanese would be encouraged to invest in U.S. (primarily Alaskan) oil and other energy resources and be allowed to export what they develop. The U.S. should also seek other economic and security concessions in addition to those expected from present U.S.-Japanese negotiations.

Key Issues

1. Japanese Energy Security. Japan has been interested in Alaskan oil since the first oil shock in the early seventies for reasons of energy security and diversification. Even with today's world oil market surplus, the Government of Japan is still extremely interested in seeking Alaskan energy exports, particularly oil. U.S. energy can help reduce Japanese dependence on Middle East and Soviet energy, thereby reducing the attractiveness of Sakhalin-type projects. The U.S. has a potential to meet up to ten percent of total Japanese energy needs in the 1990s.

2. U.S.-Japanese Relations. Prime Minister Nakasone could improve his situation at home by receiving credit for U.S. removal of oil export constraints -- something his predecessors were unable to do. This would give him added credibility with strong domestic interests which do not want to make further trade and security concessions to the United States. Likewise, it would be important for this Administration to show forward movement in problem areas of U.S.-Japanese relations. We would expect substantial investment in U.S. energy development and some further trade and security concessions beyond those presently indicated.

Oil could contribute to unlocking the present impasse in U.S.-Japanese relations. However, our offering will have to be carefully timed and orchestrated to have the maximum effect.

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3. Free Trade. The free market orientation of the Administration is particularly well served by the economics of the situation which favor the removal of restrictions on the export of Alaskan crude. Such action would signal to the world community the seriousness the U.S. attaches to free trade at a time when protectionist tendencies are threatening the world trading system. The U.S. bilateral trade balance with Japan would be improved. Overall U.S. trade balances would also be marginally better due to efficiency gains.

4. U.S. Energy. Recent large offshore oil discoveries in California suggest that one of the principal markets for Alaskan oil -- the U.S. West Coast -- may continue to be saturated once these new discoveries are brought on stream. Allowing immediate shipment of some oil to Japan could help resolve the West Coast glut. Allowing exports (and thus higher wellhead prices) would also increase the profitability of Alaskan and Californian crude production which, in turn, would stimulate additional investment in exploration, development and production from new and existing fields in these regions. It would also improve efficiency of world oil distribution channels. Over the longer term, Japanese investment can contribute to greater opening of Alaskan energy potential which might otherwise go undeveloped. On balance, U.S. energy interests would be very well served.

5. U.S. Economic Benefits and Costs. The U.S. economy would benefit from greater energy investment, improved bilateral trade balances, modest gains in windfall tax receipts and a general improvement in overall market efficiency. With removal of the ban, the U.S. would also have more flexibility in helping out financially troubled oil exporting countries such as Mexico and Nigeria.

The major economic problem is the maritime industry, which has effectively fought against export authorization in the past. The President has stated that this Administration would not jeopardize the Jones Act or the jobs dependent on it. The ban currently keeps in operation 55 tankers that employ about 2,800 seamen. While removal of the ban would eventually promote a reallocation of these resources to more productive uses, some short-term dislocations in the domestic maritime industry are inevitable. It is estimated that allowing only 200,000 barrels a day of oil to be exported (compared to up to 500,000 with complete deregulation) would result in loss of less than one thousand jobs. Negotiating cargo preference for Alaskan oil exports would reduce this job loss substantially. Commerce and State oppose cargo preference unless essential for passage in Congress.

6. Western Energy Security. Permitting export of oil to Japan would signal U.S. commitment to Western energy security and promote the U.S. as a reliable energy partner. In addition, it would enhance our credibility in Western energy security discussions in the IEA and follow-up energy studies to the East-West economic accord.

7. Defense Tanker Requirements. The Defense Department has indicated that at least 26 of the 55 tankers now in Alaska-Gulf oil trade are necessary for the Defense Reserve Fleet. Thus, it would appear that there would be sufficient tanker bottoms for Defense purposes even with a reduction in the Alaska to Gulf of Mexico trade. Releasing 200,000 barrels per day would result in the idling of ab~~out 20 t~~ankers.

8. Impact on Oil Availability in a Disruption. A partial lifting of the ban on Alaskan oil exports would have no effect on U.S. oil supply availability in a situation where the IEA oil allocation system had been activated and was in full effect. Allocation shares under this system are calculated on the basis of consumption in the period preceding activation of the system. If the U.S. were to export some of its domestically produced oil, it would be entitled to import that much more oil from other sources.

In an oil supply disruption in which the IEA system was not activated, continued export of some U.S. produced oil could be politically controversial. In reality, however, removal of the ban would not increase the level of U.S. net crude oil imports and, to the extent that U.S. domestic production is stimulated, U.S. net oil imports could actually fall, thereby increasing overall U.S. energy security.

Given the political realities of the situation, however, it may be necessary to reserve the rights to retain the first 200,000 barrels per day in an emergency. Oil developed through Japanese investment could still be allowed to be shipped. Such differentiation, however, is likely to reduce the attractiveness of the deal to the Japanese.

9. Implementation Issues. Because of the potential for higher revenues, the Alaskan producers will likely want to export more than 200,000 barrels per day of crude oil to Japan. As a result, a partial lifting of the ban places Japan in a position to capture much of the efficiency gains by getting the producers to bid against each other. To keep the efficiency gains in the U.S. economy, the producers should be permitted to market their crude to any foreign market.

Partial removal of the ban on exports would require the development of some system to determine which producers will be permitted to export Alaskan crude oil to foreign markets. The most efficient approach would be to auction these rights to the highest bidders.

10. Legal Implications. Section 7 (d) of the Export Administration Act, /50 U.S.C. App. 2406 (d)/ prohibits export of TAPS oil; Section 28 (u) of the Mineral Lands Leasing Act /30 U.S.C. 185 (u)/ prohibits export of crude oil transported

through pipelines over rights-of-way granted under the Act (this covers most U.S. crude); Section 103 (b) of the Energy Policy and Conservation Act /42 U.S.C. 212 (b)7 prohibits the export of any crude unless the President finds such export to be in the national interest and consistent with the purposes of that Act. The Department of Commerce regulations (10 C.F.R. Part 377) promulgated under the Export Administration Act prohibit all crude oil exports; additional prohibitions apply to crude oil produced from the Outer Continental Shelf and the Naval Petroleum Reserves.

The Commerce prohibitions can be changed administratively if the DOC makes a determination that crude oil is no longer in short supply. Generally, the other prohibitions can be overridden by Presidential findings that exports would be in the national interest, consistent with purposes of the Export Administration Act, and would not diminish available supply in the U.S.

While Congress would have to approve any removal or alteration of the specific prohibition on the export of TAPS oil in the Export Administration Act, the President can remove the other prohibitions on U.S. crude oil exports contained in the Export Administration Act without Congressional approval or review. Removal of the prohibitions on U.S. crude oil exports contained in EPCA and the Mineral Lands Leasing Act would not require Congressional approval, but would be subject to Congressional review.

11. Congressional Reaction. It is unrealistic to believe that we can present this issue to Congress using only economic efficiency and free trade arguments. The resistence of powerful interests groups could make any proposal to remove the ban a highly-charged political issue. The maritime industry is powerful in national politics. West Coast refiners and consumers might be upset as well. Some Northern Tier pipeline backers could be expected to oppose exports. There are also those who will oppose any export of U.S. oil. Overcoming this opposition is achievable, but some solid economic and security concessions will be necessary from the Japanese.

It is the recommendation of the Working Group that before approaching Congress, some quiet consultations with the Japanese are required to determine what they are willing to offer. Only then will we be able to determine whether a realistic package can be put before the Congress.

Approaches to the Japanese

1. Present status. The Japanese are in the process of responding to the latest (December 3-4) U.S. requests for trade concessions, including:

-- elimination of beef and citrus import quotas

-- relaxation of pre-import procedures

-- further tariff reductions

-- modification of standards and certification procedures that limit imports

-- greater market access for U.S. tobacco products

-- other concessions or clarifications affecting a wide variety of U.S. exports, including telecommunications equipment, forest products, petrochemicals, alcoholic beverages, seafood, and chocolates.

Prime Minister Nakasone already has gone far in trying to make some real concessions on both trade and defense in the face of strong domestic opposition in Japan and will likely present some of these concessions during his January visit.

2. Negotiating Strategy. Relaxation of the ban on oil exports could be a useful bargaining chip in the larger context of U.S.-Japanese discussions to promote free trade and enhance energy security. Our strategy towards the Japanese might include the following elements:

-- Try to draw the Japanese out first on concessions now under consideration before raising the possibility of Alaskan oil exports.

-- Affirm U.S. commitment to free trade, international energy security and cooperative economic relations with our close ally.

-- Try to find out seriousness of Japanese interest in Alaskan oil, given the strong possible opposition to exports by some members of Congress and the maritime unions.

-- Point out that the following contributions of the Japanese are essential in overcoming Congressional opposition:

(a) Investment in U.S. energy development, including Alaskan oil and gas resources and infrastructure, coal, and synfuels.

(b) General support for U.S. position on East-West economic issues, including strengthened compliance to East-West credit accord.

(c) Further concessions on opening Japanese markets.

(d) Progress on high technology transfer agreements.

(e) Security.

Options and Recommendation

The Working Group considered four options:

1. Seek removal of legislative restrictions on crude oil exports and wllow market forces to determine destination of oil as well as means of transport. (This is the most attractive option from an economic efficiency point of view, but would be the most difficult to achieve politically.)

2. Allow export of 200,000 barrels per day of existing production and any new oil production.

3. Allow export of any new oil production to countries which have invested in U.S. energy development. (This would help overcome maritime objections, but is probably not sufficiently attractive to induce further Japanese concessions in the trade and security areas.)

4. Allow export of any amounts of crude oil through TAPS above the present level. (This would require increasing the capacity of the TAPS by adding pump stations. This option would still require amendment of the TAPS legislation, although maritime interests are not threatened. There could be a problem in too rapid depletion of North Slope oil, which is expected to begin to decline in 1987, assuming existing TAPS flow.) DOT would prefer limiting free availability of new oil through TAPS.

It is the recommendation of the majority of the Working Group that the SIG-IEP endorse Option 2 in principle, noting that further work is necessary to elaborate on the approach to the Japanese and the political, technical and legal questions necessary to submit legislation to the Congress.